

Social welfare; personal service cooperative. A community cooperative organization formed to facilitate the exchange of personal services among members is operating primarily for the private benefit of its members and is not exempt from tax as a social welfare organization under section 501(c)(4) of the Code.

Advice has been requested whether the nonprofit organization described below is exempt from Federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954.

The organization was formed to facilitate the exchange of personal services among members. Services available to members are listed by the organization, and include home maintenance, minor repairs and transportation. Membership is open to all individuals in a particular community. Each member informs the organization of those services that he can perform. When a member needs a particular service, he contacts the organization, which provides the member with a list of other members who are capable of performing the needed service. The member needing the service selects a member to perform the service. No monetary payment is made for the service performed. Instead, the service is evaluated in terms of credit hours, and the two members inform the organization of the transaction. The organization keeps records of all transactions among members, and lists the number of credit hours earned or owed by each member.

Section 501(c)(4) of the Code provides for the exemption from Federal income tax of civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare.

Section 1.501(c)(4)-1(a)(2) of the Income Tax Regulations states that organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization coming within the scope of this section is one that is operated to bring about civic betterments and social improvements.

The organization here described is a private cooperative enterprise for the economic benefit of the members. Such organizations have been held not to be exempt as social welfare organizations. For example, Rev. Rul. 73-349, 1973-2 C.B. 179, holds that an organization formed to purchase groceries for its membership at the lowest possible prices on a cooperative basis is not exempt under section 501(c)(4) of the Code. In *Commissioner v. Lake Forest, Inc.*, 305 F.2d 814 (4th Cir. 1962), it was held that a corporation that provided housing on a cooperative basis lacked the necessary requirements of an organization described in section 501(c)(4) of the Code. The court held the operation to be a private self-help enterprise with only an incidental benefit to the community as a whole.

Similarly, in this case the organization is operated primarily for the private benefit of members. The fact that payments for services are made in kind and do not involve a monetary exchange does not derogate from the economic benefits accruing to members. Any benefits to the community are not sufficient to meet the requirement of the regulations that the organization be operated primarily for the common good and general welfare of the people of the community. Accordingly, this organization is not exempt from Federal income tax as a social welfare organization under section 501(c)(4) of the Code.